

Ms. Myria A. Polydrou, Vice President, Finance
Health Care Corporation
Post Office Box 5419
Spartanburg, South Carolina 29304

Re: AC# 3-VFT-J7 – Valley Falls Terrace, Inc. d/b/a Valley Falls Terrace Nursing Center

Dear Ms. Polydrou:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1996 through September 30, 1997. That report was used to set the rate covering the contract periods beginning October 1, 1998.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/cwc

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Robert M. Kerr

**VALLEY FALLS TERRACE, INC. D/B/A
VALLEY FALLS TERRACE NURSING CENTER**

SPARTANBURG, SOUTH CAROLINA

**CONTRACT PERIODS
BEGINNING OCTOBER 1, 1998
AC# 3-VFT-J7**

**REPORT ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

February 24, 2000

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Valley Falls Terrace, Inc. d/b/a Valley Falls Terrace Nursing Center, for the contract periods beginning October 1, 1998, and for the twelve month cost report period ended September 30, 1997, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with the standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Valley Falls Terrace, Inc. d/b/a Valley Falls Terrace Nursing Center, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Valley Falls Terrace, Inc. d/b/a Valley Falls Terrace Nursing Center dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computations of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
February 24, 2000

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

Thomas L. Wagner, Jr., CPA
State Auditor

**VALLEY FALLS TERRACE, INC. D/B/A
VALLEY FALLS TERRACE NURSING CENTER**

Computation of Rate Change
For the Contract Periods
Beginning October 1, 1998
AC# 3-VFT-J7

	<u>10/01/98- 11/30/98</u>	<u>12/01/98- 09/30/99</u>
Interim reimbursement rate (1)	\$79.63	\$80.38
Adjusted reimbursement rate	<u>79.16</u>	<u>79.91</u>
Decrease in reimbursement rate	\$ <u>.47</u>	\$ <u>.47</u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 3, 1999

**VALLEY FALLS TERRACE, INC. D/B/A
VALLEY FALLS TERRACE NURSING CENTER**
Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 1998 Through November 30, 1998
AC# 3-VFT-J7

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$35.83	\$46.64	
Dietary		9.71	9.93	
Laundry/Housekeeping/Maint.		<u>8.10</u>	<u>8.11</u>	
Subtotal	<u>\$4.53</u>	53.64	64.68	\$53.64
Administration & Med. Rec.	<u>\$4.23</u>	<u>6.67</u>	<u>10.90</u>	<u>6.67</u>
Subtotal		60.31	<u>\$75.58</u>	60.31
<u>Costs Not Subject to Standards:</u>				
Utilities		2.03		2.03
Special Services		-		-
Medical Supplies & Oxygen		3.99		3.99
Taxes and Insurance		1.09		1.09
Legal Fees		<u>.04</u>		<u>.04</u>
TOTAL		<u>\$67.46</u>		67.46
Inflation Factor (3.60%)				2.43
Cost of Capital				7.27
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				2.36
Cost Incentive				4.53
Effect of \$1.75 Cap on Cost/Profit Incentives				(5.14)
Minimum Wage Add-On				<u>.25</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$79.16</u>

**VALLEY FALLS TERRACE, INC. D/B/A
VALLEY FALLS TERRACE NURSING CENTER**

Computation of Adjusted Reimbursement Rate
For the Contract Periods December 1, 1998 Through September 30, 1999
AC# 3-VFT-J7

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Cost Incentive				4.53
Effect of \$1.75 Cap on Cost/Profit Incentives				(5.14)
Minimum Wage Add-On				.25
CNA Add-On				<u>.75</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$79.91</u>

**VALLEY FALLS TERRACE, INC. D/B/A
VALLEY FALLS TERRACE NURSING CENTER**
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1997
AC# 3-VFT-J7

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$1,147,466	\$ -	\$ -	\$1,147,466
Dietary	310,996	-	-	310,996
Laundry	40,870	-	-	40,870
Housekeeping	134,957	-	-	134,957
Maintenance	83,629	-	-	83,629
Administration & Medical Records	227,674	-	14,163(2)	213,511
Utilities	65,038	-	-	65,038
Special Services	-	-	-	-
Medical Supplies & Oxygen	127,735	-	-	127,735
Taxes & Insurance	34,930	-	-	34,930
Legal Fees	1,127	-	-	1,127
Cost of Capital	233,462	2,458(3)	3,086(1) 12(4)	232,822
Subtotal	2,407,884	2,458	17,261	2,393,081

**VALLEY FALLS TERRACE, INC. D/B/A
VALLEY FALLS TERRACE NURSING CENTER**
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1997
AC# 3-VFT-J7

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Ancillary	2,394	-	-	2,394
Non-Allowable	22,415	3,086(1) 14,163(2) <u>12(4)</u>	2,458(3)	37,218
Total Operating Expenses	<u>\$2,432,693</u>	<u>\$19,719</u>	<u>\$19,719</u>	<u>\$2,432,693</u>
Total Patient Days	<u>32,025</u>	<u>-</u>	<u>-</u>	<u>32,025</u>

TOTAL BEDS 88

**VALLEY FALLS TERRACE, INC. D/B/A
VALLEY FALLS TERRACE NURSING CENTER**
Adjustment Report
Cost Report Period Ended September 30, 1997
AC# 3-VFT-J7

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Nonallowable	\$ 3,086	
	Accumulated Depreciation	32,634	
	Fixed Assets		\$24,498
	Cost of Capital		3,086
	Other Equity		8,136
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	14,163	
	Administration		14,163
	To disallow unnecessary working capital interest HIM-15-1, Sections 202.1 and 202.2		
3	Cost of Capital	2,458	
	Nonallowable		2,458
	To adjust capital return State Plan, Attachment 4.19D		
4	Nonallowable	12	
	Cost of Capital		12
	To adjust depreciation expense State Plan, Attachment 4.19D		
		<hr/>	<hr/>
	TOTAL ADJUSTMENTS	\$52,353	\$52,353

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

VALLEY FALLS TERRACE, INC. D/B/A
VALLEY FALLS TERRACE NURSING CENTER
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 1997
 AC# 3-VFT-J7

	<u>Old Beds</u>	<u>New Beds</u>	
Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.1814</u>	<u>2.1814</u>	
Deemed Asset Value (Per Bed)	34,069	34,069	
Number of Beds	<u>52</u>	<u>36</u>	
Deemed Asset Value	1,771,588	1,226,484	
Improvements Since 1981	118,212	13,732	
Accumulated Depreciation at 9/30/97	<u>(404,021)</u>	<u>(304,815)</u>	
Deemed Depreciated Value	1,485,779	935,401	
Market Rate of Return	<u>.067</u>	<u>.067</u>	
Total Annual Return	99,547	62,672	
Return Applicable to Non-Reimbursable Cost Centers	-	-	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	
Allowable Annual Return	99,547	62,672	
Depreciation Expense	25,722	44,804	
Amortization Expense	67	47	
Capital Related Income Offsets	(22)	(15)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	<u>Total</u>
Allowable Cost of Capital Expense	125,314	107,508	\$232,822
Total Patient Days (Actual)	<u>18,924</u>	<u>13,101</u>	<u>32,025</u>
Cost of Capital Per Diem	\$ <u>6.62</u>	\$ <u>8.21</u>	\$ <u>7.27</u>

**VALLEY FALLS TERRACE, INC. D/B/A
VALLEY FALLS TERRACE NURSING CENTER**
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1997
AC# 3-VFT-J7

	<u>Old Beds</u>	<u>New Beds</u>
6/30/89 Cost of Capital and Return on Equity		
Capital Per Diem Reimbursement	\$3.02	\$ N/A
Adjustment for Maximum Increase	<u>3.99</u>	<u>N/A</u>
Maximum Cost of Capital Per Diem	\$ <u>7.01</u>	\$ <u>8.21</u>
Reimbursable Cost of Capital Per Diem		\$7.27
Cost of Capital Per Diem		<u>7.27</u>
Cost of Capital Per Diem Limitation		\$ <u>-</u>